JAN., *1894.*

ANNALS

OF THE

AMERICAN ACADEMY

OF

POLITICAL AND SOCIAL SCIENCE.

INDIAN CURRENCY.

It was, I think, Mr. Evarts, Secretary of State for the United States of America, who, many years ago, said:

"The British Empire is neither monometallist nor bimetallist, but bi-monometallist. The British Empire cannot be monometallist gold, nor monometallist silver, throughout its length and breadth. Its present position of bi-monometallism is entirely inconsistent with reason and government; it must be bimetallic sooner or later, for it cannot maintain the permanent position of a house divided against itself which cannot stand."

So long as silver and gold were kept, by the monetary laws of France, the joint money of the world at a fixed ratio, this bi-monometallism of England and India, although productive of some minor inconveniences, was little more than nominal, and did not involve any serious complications; but when the link between gold and silver was broken by the violation of the monetary law in 1873, very grave difficulties rapidly developed as the result of this illogical position.

In 1871, when the rupture of the link between gold and silver was merely contemplated, M. Ernest Seyd predicted that it would "only lead to the destruction of the monetary equilibrium hitherto existing and cause a fall in the value of silver from which England's trade and the Indian silver valuation will suffer more than all other interests, grievous as the general decline of prosperity over the whole world will be;" and he added: "The strong doctrinarianism existing in England as regards the gold valuation is so blind, that when the time of depression sets in, there will be this special feature: the economical authorities of the country will refuse to listen to the cause here foreshadowed; every possible attempt will be made to prove that the decline of commerce is due to all sorts of causes and irreconcilable matters . . . The great danger of the time will then be that among all this confusion and strife, England's supremacy in commerce and manufactures may go backwards to an extent which cannot be redressed, when the real cause becomes recognized, and the natural remedy is applied."

The fidelity with which this prediction has been fulfilled is perfectly marvelous. Soon after 1873, when the link was broken, a depression of trade unexampled in magnitude and duration set in, and after twenty years it shows no signs of abatement, but on the contrary threatens to increase in intensity. The report of the Royal Commission appointed to inquire into the depression of trade and industry in 1886, failed to account satisfactorily for the depression. It was, as Seyd foretold, attributed to all sorts of causes and irreconcilable matters. The members of the commission were at variance with each other, and no less than eleven separate reports or notes of dissent were submitted. The majority were quite unable to account for "*the remarkable feature of the present situation, which distinguished it from all other periods of depression*, viz., its duration," but they desired that the fall of prices so far as it had been caused by an *appreciation in the standard of value* should be a matter of

independent inquiry, and they added, "We do not think it necessary to investigate at length the causes that have brought it about, but we desire to give it a leading place in the enumeration of the influences which have tended to produce the present depression." Still, the people of England clung to their golden idol.*

The gold-using countries generally, and Great Britain in particular, have really suffered more than India from this violation of the monetary law. It is true that India has experienced inconvenience to its government in its financial position ; suffering to its civil servants, from the manner in which it has affected their salaries and pensions ; loss to its merchants, from want of stability in exchange, and hindrance to the development of the country, by the instability of the medium in which the interest on capital must be repaid ; but the country itself, as a whole, has not otherwise suffered from this cause. The rupee, in common with silver all over the world, has not, until very lately altered in value (*i. e.* in its purchasing power), but has remained stable while gold has appreciated ; consequently the producer in India has enjoyed an immunity from those evils which are caused by an appreciating standard and which have weighed so heavily on his gold-using competitors. India, as a rule, has enjoyed a fair

* It is a fallacy to suppose that the commercial superiority of England has been due to its gold standard. England acquired its commercial superiority long before it had a gold standard. Alison, in describing the trade of Great Britain at the beginning of this century, sixteen years before she adopted a gold standard, wrote : "The monopoly of almost all the trade of the world was in its hands." We have that monopoly no longer. Our commercial superiority is due to the energy and determination of the Anglo-Saxon race—to England's insular position, to its good harbors, to its two centuries of internal peace, and accumulating capital. The gold standard has been from first to last a source of inconvenience and danger, but up to 1873 she was saved from the difficulties which have since beset her, by the double standard of France. Some people suppose that England has benefited by her gold standard, in that obligations payable in England secured payment in gold, and consequently induced the foreigner to hold bills payable in London, and thus attracted capital. Even were this the case it might be very well for bankers, but not so satisfactory for bankers' customers who have to satisfy their obligations in an uncertain and appreciating standard. But the inference is incorrect, for during a considerable period of the time in which England had a gold standard, and that period one of its greatest prosperity, it was a positive disadvantage to be paid in gold, silver being at a small premium when compared with gold.

degree of prosperity, whilst her gold using competitors have suffered grievously. It is not so much that India has absolutely benefited by the existing state of affairs; her gain having been to a certain extent neutral, and only positive when contrasted with that of her competitors; but now she has exchanged the currency which has hitherto been stable for one that has proved eminently unstable during the last twenty years.

It has been stated that it is impossible to increase the taxation of the natives of India, but there cannot be the slighest doubt that the adoption of an appreciating standard must tax the native, indirectly, to a far greater extent, and in a far more injurious manner, than any direct taxation.

The Government of India has striven to the utmost of its power to induce the Home Government to adopt the only practical solution of the difficulties that beset her, namely, a return, by international agreement, to the monetary law which has been violated; but, as this has been refused, India has been left on the horns of a dilemma, to choose between two evils which have been aptly designated, the "Policy of Drift" and the "Policy of Despair." She has chosen the latter and it now remains to be seen which is the greater evil of the two.

A study of monetary history by the light of recent experience distinctly proves that the confusion in currency which has existed in past times has been entirely due to neglect of the establishment amongst nations of a common ratio between gold and silver. Failing such a universal ratio, each metal has naturally from time to time sought the best market, and an observation of this tendency, when a coin has been overrated, has led to injudicious monetary changes or debasement of coin—to the creation of that which is termed in Gresham's law "good" or "bad" money—for although bimetallism existed from time immemorial, it was reserved for France in 1789, Calonne being Finance Minister, to establish on a sound basis that simple system of joint

standard which was confirmed in 1803, and which maintained unbroken the parity of gold and silver coins until 1873,* when the link was foolishly broken by the restriction of the mintage of silver in France.

The currency of England was silver monometallic under the reign of Edward the Third, when gold was made a legal tender at a ratio fixed from time to time by the State. In the reign of James I. the quantity of gold in coins was reduced to prevent its export, but this was overdone, and induced the export of silver in its turn. If a common ratio had existed there would have been no inducement to export one metal rather than the other. In the reign of Charles II. the guinea was coined with the intention that it should pass current for 20 shillings, but the amount of gold in it was such that it was thought necessary to declare its value at 22 shillings. It proved, however, to be overrated at that value, and was subsequently rated at 21*s.* 6*d.* In 1717 it was rated at 21*s.* This fixed the ratio in England at 1 to 15.21, and

* Mr. Giffen has stated that between 1803 and 1873 the French bimetallic law completely broke down and failed to maintain the ratio of 1 to 15½; that during a considerable period, notably between 1820 and 1847, France was purely a silver standard country, as proved by the fact that during that period there was constantly a premium on gold. In this argument Mr. Giffen has fallen into a series of astounding blunders.

1. He has quoted the old Paris market prices (instead of the mint prices) of gold and when allowance has been made for this error his argument is destroyed, for in six of the years in which he states that gold was constantly at a premium it has actually been at a discount.

2. Even admitting his figures had been correct, they would not have proved France to have been a silver standard country. Bar gold is frequently at a premium in England. During November last it stood at a premium of nearly four per mille, but this fact does not prove that the gold standard of England had broken down, and that England was then a silver standard country.

3 Mr. Giffen appears to have overlooked the fact that during nearly the whole of the period (in which he states that gold was constantly at a premium in France) silver was also concurrently at a premium, and that during a part of this period the premium on silver was actually higher than that on gold. In fact, a premium on either metal simply shows that both gold and silver were at a slight premium with bank notes, and it indicates either that the coin in circulation was generally below the legal weight, or that bank notes had slightly depreciated. It proves nothing beyond a demand for purposes of export. It is a bullion broker's rather than a banker's question. The French people—apart from brokers or those who required metallic money for traveling abroad or for export—were altogether unaffected by the premium, and cared no more about it than the customer of an English bank cares when he learns from the journals that gold is at a premium in London.

as the ratio on the Continent was then 1 to 14.50, the silver of England, seeking the best market, was exported. In 1730 Spain changed her ratio to 15.87, and this induced a return of silver to England. In 1774 England limited the legal tender of silver coins to £25, unless they were of full mint weight, though she did not adopt the gold monometallic standard until 1816.

The United States of America had, from the foundation of the Union until 1873 a double standard. Originally the ratio was 15 to 1, whilst that of France was 15½ to 1 ; and the metal in each country naturally sought the market which afforded the most advantageous terms, resulting in the export of gold to France. In order to rectify this tendency, America, in 1834, foolishly adopted a ratio of 1 to 16, although she had been advised by her experts to adopt the French ratio of 1 to 15½, which would have removed all preference for either metal; but although these differences of more than three per cent rendered the preservation of a ratio a difficult matter, it was maintained until the link between gold and silver was foolishly broken by the suspension of free coinage of silver, in 1873.

Similar lessons might have been learned when Holland overrated her gold, and Portugal overrated her silver. England and India, in the causes which led to their adoption of monometallism, furnish a similar object lesson. They have, in both instances, adopted ratios which have induced the exportation of one metal in preference to the other, and they have then perpetuated that mistake by enacting laws which precluded the use of the metal they had driven away.

The Government of India has discovered its mistake and has desired to enter into an agreement for an international ratio, but she has been sacrificed to the blunder into which England has fallen, and which the English are slow to discover. In connection with this policy a brief account of Indian currency and of those conditions which have affected it, may prove interesting.

Gold was not a legal tender in India until 1766, when the Gold Mohur was ordered to pass for 14 sicca rupees, but as the ratio was lower than that which existed in Europe, the arrangement was necessarily found to work unsatisfactorily, and the new Gold Mohur containing 186.8 grains of pure gold, was made a legal tender equivalent to 16 sicca rupees. In 1793 an enactment provided for the coinage of Gold Mohurs containing 187.4 grains of pure gold to pass as legal tender as the equivalent of 16 sicca rupees containing 175.93 grains of pure silver, or 1 of gold to 14.86 of silver, and as this ratio was not in accordance with the European ratio, gold naturally sought the best market. In 1801 the silver rupee was made to contain 164.74 grains of pure silver, and the Gold Mohur of the same weight and standard to pass for 15 rupees, or a ratio of 1 to 15, as contrasted with the French ratio of 1 in 15½, which necessarily led to the disappearance, or at all events to the scarcity of gold coin. In 1806 the Court of Directors, not recognizing the fact that their own action had given rise to a scarcity of gold coin, established the silver rupee as the standard of currency, and the Gold Mohur at 15 to 1 was left to find its own level in the market, without having any fixed relative value set upon it. In 1818 the silver rupee was proclaimed in future to constitute the standard coin in the Madras Presidency, but for convenience of the public gold rupees containing 165 grains of pure gold were exchangeable for 16 silver rupees. In 1835 it was enacted that gold should cease to be a legal tender for payment in any of the territories of the East India Government, but gold was received in the government treasuries.

So long as the intrinsic value of gold in the market was equal to that of the silver represented, there was no difficulty in passing such coin, but, as soon as the price of gold began to fall, the Gold Mohur was no longer of the same value as sixteen silver rupees, and if the government continued to receive them, without the power of paying them out again,

at the same rate, there would be an accumulation of gold which could not be used as money ; it was therefore enacted in 1853 that no gold should be received in the government treasuries. In 1857 the Government of Bombay proposed the introduction of the sovereign as legal-tender in India but the proposal was negatived by the Supreme Government as well as by the Secretary of State. In 1859, the Governor-General sent home a proposal for the adoption of a paper currency in India, by Mr. James Wilson, who although believing in the superiority of a gold standard, urged that—in a country where all obligation would be contracted to be paid in silver—to make a law by which they could be forcibly paid in anything else would simply lead to default the creditor at the advantage of the debtor, and to break faith with the public.

Mr. Wilson pointed out that, in the operation of the double standard, "the one coin which is gradually becoming of less intrinsic value, gradually and day by day displaces the coin which is undergoing appreciation—large supplies of the cheapening coin come from the mint, and corresponding quantities of the appreciating coin are bought up and exported at a profit ; but as long as the two coins circulate together, and to whatever extent they do so, they are in the hands of the public of the same nominal value and continue without any intermission to answer the same purpose for all daily uses," and he added, "However objectionable therefore a double standard may be and however inconsistent in theory, I hold it to be the least objectionable of all the plans yet proposed for combining the use of the two metals in coins of full intrinsic value in circulation in the same currency."

About 1862 a demand for a gold currency arose from a crisis which occurred consequent on the cotton famine during the American Civil War, but the late Sir Charles Trevelyan, then Finance Member, pointed out that the crisis which had passed over the country had not been caused by any deficiency of the circulating medium of currency, which was

rather redundant than deficient, but that it was caused by the unwillingness of the people of India to accept the ordinary mercantile equivalent for the large additional value exported. Vast supplies of silver had been poured into India under this exceptional and extrinsic cause, but even if the supplies had been yet more abundant, fresh importations must still have taken place, because no other equivalent would be accepted for the Indian produce which the rest of the world desired to have; and the only true remedy was that *both the precious metals should be equally available as articles of currency.* The gold of Australia was sent to England where it was employed in buying silver; and the silver sent to India was burdened with the charges of the double voyage, and with the additional interest incurred during the prolonged period occupied by it. The gold remained in the Bank of England until the Indian demand set in, and then it was suddenly withdrawn to sweep the Continent for silver, with the result that speculators—trading on the well-known requirements of the bank and aware that India's wants could only be satisfied with the one metal—had "cornered" silver, and the banks in order to protect themselves raised the rate of discount and disorganized trade. He recommended that gold should have legal tender in addition to silver and proposed that English Australian sovereigns and half-sovereigns should be declared legal tender at the rate of one sovereign to ten rupees, and the Indian mint should be open to the receipt of gold bullion on those at a charge sufficient to cover the cost of mintage.

This was negatived by the Secretary of State, who, however, approved of the tentative measure of receiving sovereigns and half-soverigns at all the Indian treasuries for the sum of ten and five rupees respectively, and paid out at the same rate, unless objected to, currency notes being issued at the same rate to an extent not exceeding one-fourth of the coin or bullion issues in each case. But as the ratio of ten rupees to the sovereign was only 14.6 while the Continental

ratio was 15.5, or a difference of six per cent, such an arrangement was naturally unworkable. In availing themselves of this permission, the Government of India and the Bank of Bengal again urged the desirability of making gold a legal tender, but the Secretary of State decided that the time had not arrived for taking any further step, and that the measure proposed would be unattended with any advantage.

In 1866 a commission in India reported:

1. That the gold coins were not used as money in India and were generally at or above par.

2. That they were sought for as a medium of reserve or for trading purposes.

3. In districts, where gold was below par, it was because it was practically unknown or the people too poor to create a demand.

4. That the demand for gold currency was unanimous throughout India.

5. That gold coins would find more favor than notes.

6. That the introduction of gold would facilitate the establishment of currency notes.

7. That the opinion was almost unanimous that the currency should consist of gold, silver and notes.

In 1873, France perpetrated the terrible blunder of restricting the mintage of silver, thus demonetizing that metal in Europe *for international purposes.*

This was followed by that which was, at the time, considered an "inexplicable and unprecedented depreciation of silver," and was generally attributed to the large production of that metal in the Nevada mines, although the relative value of silver production was at the time only about equal to that of gold, and the disproportional production of the two metals was nothing in comparison with that caused by the deluge of gold from the Californian and Australian discoveries in the period, 1850–60, a deluge which so long as the two metals were linked together by the French monetary law, produced scarcely any appreciable effect.

The Government of India was early in the field in recognizing the true character of the divergence, and in making the discovery that it was not silver that had depreciated, but *gold that had appreciated.* Silver not only in India, but all over the world, had not altered its purchasing power, whilst the purchasing power of gold had increased largely. This view was confirmed by almost simultaneous investigations in the United States, in England, and on the Continent.

In 1876 the Government of India issued a resolution, in which the following conclusions were summed up:

1. That the divergence in the value of gold and silver was not necessarily attributable to diminution in the value of silver, but there were strong reasons for believing that gold had appreciated, and this consideration must have an important bearing upon the action of the government.

2. That although it was most desirable in the interests of trade that the standard of value should be the same as that of the countries with which India interchanged commodities, yet trade will not be permanently injured by the fall of rupees measured in gold, provided that a fresh, stable equilibrium of the metals be obtained.

3. That there was no sufficient ground for interference with the standard of value.

In August, 1878, the Paris Monetary Conference met, and the delegates were unanimous in the opinion that it was necessary to maintain the monetary functions of silver as well as those of gold. The English delegates subsequently reported, "assuming that the general double standard proposed by the United States could not be adopted, what would be the future of silver—toward what aim ought the various States to direct their efforts? This aim we considered to be to keep silver in the position which it occupies at present as a partner or natural ally of gold, in all parts of the world where it might be possible to do so. We consider that the campaign undertaken against silver would be exceedingly dangerous

even for the countries who have given a position as legal-tender only to gold."

Mr. Gibbs and Mr. Goschen, the British delegates, were of opinion that "whilst not in favor of the universal adoption of a single gold standard, they consider that the establishment of a fixed ratio of gold and silver is 'utterly impracticable,' and that they are opposed to a system of currency based on a double standard."

They were at that time sturdy defenders of monometallism, but Mr. Gibbs has since recanted the opinion above expressed and has urged, not only the practicability, but also the absolute necessity for adopting a system of currency based on the double standard. Mr. Goschen has since admitted that bimetallism is a "very serious demand for the change which if adopted, would produce large results;" and on another occasion he remarked: "I am aware that most of the monometallists hold their views so strongly that many of them, like most orthodox religious people, are unable to give an account of their belief."

Toward the end of 1878 the Government of India, finding that the monetary conference held out no hope of relief, suggested the limitation of the mintage of silver in India, with the intention of introducing into India the gold standard, whilst retaining the existing currency, the ratio between the rupee and the sovereign being fixed arbitrarily by government.

In replying, the Lords of the Treasury were of opinion that "it was unadvisable to legislate hastily and under the pressure of the moment, or with an apprehension of uncertain consequences." That "it was not proved that increase or readjustment of taxation must necessarily be the consequence of matters remaining as they were"—that "equilibrium between income and expenditure might be regained by economy of expenditure as well as increased taxation"—that "increase of salaries might be met or at least reduced by a careful revision of establishment"—that "there was

nothing to show the precise injury to Indian trade"—that "they could not admit that the responsibility for doing nothing was as great as that for doing something"—that "it was better to sit still, than to have recourse to crude legislation under the influence of panic"—that "it appeared as if the Government of India were anxious to put an end to the competition of silver against their own bills, and that, although this might relieve the government and the civil servants and those who wish to remit money to England, such relief would be given at the expense of the Indian taxpayer." In 1880 the situation had changed for the worse and the Government of India forwarded a very able memorandum prepared by Mr. Chapman, the Financial Secretary, in which it was shown that the long standing equilibrium between gold and silver, which had been preserved under French monetary law, for the optional interchange of two metals at a fixed ratio had been destroyed by the closure of the French mints to silver in 1873. That, contrary to the general expectation and belief, gold had appreciated and silver had not depreciated, as proved by the purchasing power of the two metals and that it was impossible to foresee the extent to which pressure might be transferred from silver to gold. The loss to India was to be attributed to a rise in the value of gold and the practical advantages to be expected from the adoption of the double standard were the limitation of fluctuations of exchange within narrow limits, and stability of standard—that so long as gold and silver were freely interchangeable in France at a fixed ratio, that ratio governed the relation of the two metals, and therefore the value of each throughout the world. The single gold standard of England and the silver standard of India were alike wholly subject to the influence of the French monetary law. That the French bimetallic law *alone* did confine the fluctuation of the relative values of gold and silver throughout the civilized world. That if gold alone or silver alone should, by common consent, be made the universal standard of value, then, after an

undefined interval of disaster and ruin, a certain new stability of standard established upon the sole gold or sole silver basis, might be attained, but even then such stability, based on one metal only, must inevitably be wholly inferior to that based upon the two metals in correlation, because the compensating influence would be absent, and every fluctuation would operate upon a much smaller volume of material.*

It was believed that if America, France and India were to unite in an international monetary agreement, the desired reform might be effectually and permanently accomplished.

Sir John Strachey, then Financial Member, estimated the loss to the Government of India at £2,500,000 a year, but considered the present loss insignificant in comparison with the future damages to which India was exposed.

The Viceroy expressed the opinion that it would be of unquestionable and quite incalculable financial benefit to India to enter into a monetary convention with France, America and Germany for the common adoption of a bimetallic standard.

In 1881 the Monetary Conference again met at Paris. The British delegate explained that his government would not enter the conference as supporters of the principle of the double standard, and that his instructions had been to furnish all information that might be required, but did not permit him to vote.

* The manner in which demand fixes the relative value is as follows: Under the law of the double standard those who have to make any payment have the choice of metal—in other words they are the persons who give rise to a demand for either metal. Of course they will not be so foolish as to select the dearer metal or that which costs the most. They naturally select the cheaper metal to satisfy their obligations. In other words *the demand sets in for that metal which is below the ratio and falls off for that which is above the ratio*, however small the difference may be. With the demand the cheaper metal rises in price and with a cessation of demand the price of the dearer metal falls—the tendency in each metal being constantly to approach the ratio which has been fixed as legal tender. It is impossible that it should be otherwise and this automatic adjustment is extremely sensitive; for the slightest divergence is carefully watched by bullion brokers all over the world. It is not therefore the law which fixes the *price;* it simply fixes the *ratio of legal tender*, and when this is fixed, the demand keeps the equilibrium at that ratio as surely as water finds its own level.

There was a general consensus of opinion that the rehabilitation of silver was necessary, some of the delegates believing that time only was required for matters to right themselves, while the bimetallist members were of opinion that the situation would pass from bad to worse in default of a return to the double standard which existed before 1873.

The delegates of Great Britain were authorized, if necessary, to agree that, for a period not exceeding ten years, the Government of India would not suspend the free coinage of silver, and that one-fifth of the metallic reserve of the Bank of England should consist of silver, *only, however, on condition of the formation of an international agreement by the other powers on a bimetallic basis* at the old ratio of 1 of gold to 15½ of silver, thus desiring to impose upon the shoulders of the other nations a risk of which the British Government was unwilling to take its fair share.

The Paris Conference adjourned without arriving at any definite conclusion and did not meet again.

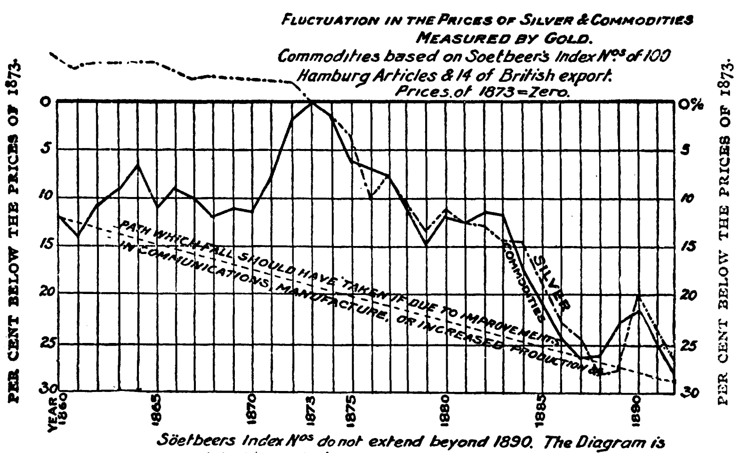
The Indian delegates, Lord Reay and Sir Louis Malet, in reporting on the proceedings, stated that between 1871 and 1881 the "limping" standard had been generally adopted in Europe and the United States; that the population of States using a gold standard had nearly quadrupled; that the foreign trade using a gold standard had nearly trebled; that the disturbance in the relative value of gold and silver was due to an appreciation of gold;* that the rupee in India had apparently retained its former value and that with a

*It is a very common fallacy in England to attribute the fall in gold prices to improved manufacture, production and transport; but it is absurd to suppose that these causes should affect in so marked a manner one standard of value (gold), and yet leave the other (silver, which is the standard of two-thirds of the world) unaffected; for though gold prices have fallen heavily, silver prices have remained very steady throughout the world. Moreover, these alleged causes have been in continuous operation during the greater part of the century, and therefore the fall of prices, if due to such causes, should have been spread gradually over the whole period subjected to such influences; but, on the contrary, both gold and silver prices have risen considerably during the fifteen years preceding 1873, and were steadily rising. It was only after 1873 that gold prices suddenly fell to an extent that has been perfectly appalling. The accompanying diagram (No. 1) shows this

balance of trade always so large in her favor there was every reason to believe that by adopting the gold standard and suspending the coinage of silver she could, in a few years, obtain a supply of gold sufficient for the purposes of currency, but such a policy would aggravate appreciably the scarcity of gold, and on this account was to be deprecated.

In January, 1886, the question had assumed so serious an aspect that the Government of India expressed the opinion that the interests of India "imperatively demanded that determined efforts should be made to settle the silver question by international agreement," urging that "*they did not, and could not, admit that the fluctuation in the relative value of gold and silver was beyond control*, or that it was impossible by international agreement to confine their fluctuations within the limits that prevailed up to 1873"; that "if it were possible to secure a stable ratio between gold and

very clearly, and the wonderful coincidence between the fall of silver and that of commodities (both measured by gold) is too close to have been accidental.



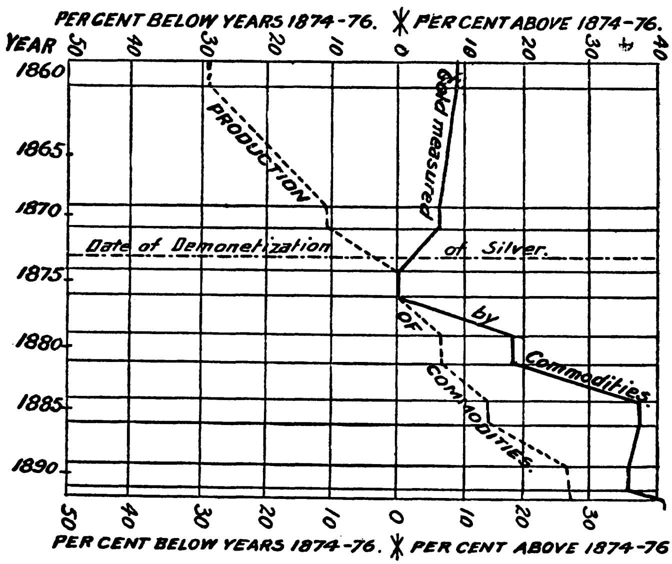
[The diagonal dotted line indicates the direction which prices should have taken if the fall had been due to these alleged causes.]

The other diagram completely disproves the fallacy that over-production has been the cause of the appreciation of gold. It shows that whilst production of

silver, a serious responsibility would rest on the Government of India and the Home Government if they were to neglect any measures to bring about this result"; that the position in which they were placed by the fluctuation of exchange was "intolerable"; that any further progress in substituting gold for silver would be productive of widespread injury, which would increase in magnitude the further the process was carried; that the establishment of a fixed ratio between gold and silver was not beyond the possibility of human control and that there was strong justification for taking the

commodities has increased in a remarkably steady manner between 1860 and 1892, the tendency of gold prior to 1873 was rather to depreciate, yet after 1873 it has appreciated forty per cent.

Relative fluctuations in the production of Commodities and in the value of Gold as measured by Commodity prices. Based on Mr. Sauerbeck's table p. 5 of paper read before the Royal Statistical Society, April, 1893. Index Nos. of 45 wholesale articles. Zero assumed in years 1874-1876.



The periods given in Sauerbeck's table are 1859-61, 1869-71, 1874-76, 1879-81,-1884-86, 1889-91, and 1892. The connecting lines between these periods in the diagram merely indicate the general tendency; and the period 1874-76 being the nearest to 1873 has been taken as zero for the purposes of comparison.

initiative in promoting a conference for considering remedial measures.

The Government of India also pointed out that the immediate cause of the wide departure from the old ratio of exchange between gold and silver was the abandonment of the free coinage of silver by the Latin Union in 1874,* that this had led to a rapid and heavy fall; the average rates observed in successive years of the bills drawn on India being as follows:

Years	1872-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81
Rate—Pence .	22.81*	22.35	22.22	21.64	20.49	20.79	19.76	19.96	19.96

The burden thus occasioned to Indian finance was enhanced by two famines and the Afghan War, and the period was marked by increased taxation, large reductions in public works, and a heavy addition to the gold debt in England.

On the cessation of the war, and the close of the great famine, this increased taxation, followed by a very abundant harvest—had caused a full exchequer which imparted to the finances a fictitious semblance of sound prosperity; and Lord Ripon deceived by this appearance, foolishly launched out into lavish remissions of taxation, at a time when it became necessary to make provision against a future famine and when the movements of Russia involved, not only enormous additions to frontier railways and defences, but a very large increase to the European and native army. These heavy drains on the finances of India accompanied by the fall of the gold value of the rupee, which in 1886 had fallen below eighteen pence, seriously embarrassed the government.

The Government of India expressed the belief that there was no guarantee that the burden of £2,000,000 sterling due to the fall of the gold value of the rupee might not at any time be increased twofold by any action the United

* The first restriction of mintage of silver was really in 1873. The par of exchange at 15½ to 1, under the French monetary law was 20.67 pence, so that *in 1872 73 the rupee was slightly above par*, which was fully accounted for by the fact that the wants in India could only be satisfied in one metal—silver—and the price was raised by speculators trading on the bank's known requirements.

States might take, and the uncertain position of finance to which this gave rise, in a country like India, was pregnant with danger; that it was "no exaggeration to pronounce such a state of affairs, from our point of view, *intolerable;*" that the uncertainty regarding the future of silver discouraged the investment of capital in India, and it was impossible to borrow silver except at an excessive cost; that the frontier and famine railways, and the coast and frontier defences were imperatively required, and could not be postponed indefinitely; that the abandonment of the famine and frontier railways already in hand would be a wasteful measure, if not a practical impossibility, and even a temporary check in their progress was greatly to be deprecated; that large sums required by municipalities for sanitary arrangements were subject to heavy and increasing rates of interest, mainly caused by the prevailing distrust of silver securities and the uncertainty regarding the future; that the interests of the European officers of government also demanded recognition, as the cost of remittances formed a heavy item in their expenditure, and officers whose pensions were fixed in rupees found their resources seriously crippled on retirement and return to England, whilst the increased income tax that had become necessary fell with severe incidence on those who had already suffered largely by the fall of exchange; that the question of future relations of gold had been allowed to drift for fully twelve years; that recent events had brought into greater prominence the evils with which the world is threatened by the state of the currency, and the Government of India was of opinion that it was a favorable time for reopening the whole question.

The evils connected with the present state of affairs were so serious that the adoption, sooner or later, by international agreement, of measures which should bring about a stable ratio between gold and silver appeared to be only a question of time, and the sooner it was taken in hand the easier would be the task and the more satisfactory the result.

The Lords of the Treasury replied to this in a very extraordinary dispatch.* They objected that the Government of India offered no definite indication of the nature of the international agreement which should supply the solution of the question. They quoted the utterances of Mr. Goschen and Mr. Gibbs at the International Monetary Conference of 1878 to prove that a fixed ratio between gold and silver was impracticable, although it was notorious that since that time Mr. Gibbs had not only publicly recanted that opinion, but was a strong supporter of the opposite view, and that Mr. Goschen had entirely modified his views on the subject.

The Lords of the Treasury further added that whilst it was admitted that some benefits might be derived by the European officers of government from the remedy proposed, it would exercise an injurious effect on the Indian taxpayer; that monetary changes of so grave a character ought not to be discussed unless there was a reasonable ground for anticipating a practical result; that nothing had been said about the reduction of expenditure, although it might safely be concluded that the control of its expenditure was far more within reach of the government than the regulation of the market value of the precious metals; that her Majesty's government would take no measures for summoning or co-operating in a new monetary conference until they had previously determined what policy they would initiate or could consent to, and that there was nothing in the correspondence which should induce them to depart from the instructions given to their delegate in 1881.

In September, 1886, at the request of the Royal Commission appointed to inquire into the depression of trade, a Royal Commission was appointed to inquire into the recent changes in the relative value of the precious metals. The commission was composed of twelve members impartially selected

* The whole of this correspondeuce was published in the *Indian Pioneer* of July 5, 1886.

and consisting of a fair proportion of monometallists, bimetallists, and those who had no particular bias. After patient investigation extending over a year and a half, six members of the commission agreed to recommend the adoption of bimetallism by England in conjunction with the other leading nations, while the remaining six members, though declining to concur in this recommendation, were nevertheless irresistibly led by their investigations to admit in full every principle for which the bimetallists contend. They admitted:

1. That there had been a considerable increase in the use of gold for currency.

2. That the evils of fluctuation are undoubted.

3. That the want of a fixed ratio constitutes a very serious evil.

4. That the bimetallic system of France exerted a considerable influence on the relative value of the two metals.

5. That notwithstanding changes in the production and use of metals, the bimetallic system of France kept the market price of silver approximately steady at the ratio of 1 to 15½.

6. That it is reasonable to suppose that the bimetallic system of France should be capable of so maintaining that ratio.

7. That the Latin Union in 1873 broke the link between gold and silver, and when this link was broken the silver market was open to all the factors that affect the price of commodities.

8. That, as far as they could forecast, if international bimetallism were accepted by the United Kingdom, Germany, the United States, and France, a stable ratio might be maintained.*

* Two of the members expressed a doubt on this point. One of these (Sir John Lubbock) has since endeavored to weaken the force of this admission by arguing that "the report had not stated that a stable ratio *would* be maintained but that it *might* be maintained, two very different things"—but the context does not support this contention, for the paragraph continues thus: "We think that if in all these countries gold and silver could be freely coined and thus become exchangeable

9. That there is no danger of a disappearance of gold under a bimetallic system.

10. That it might be difficult to suggest any motive to induce a contracting power to secede from international bimetallism.

11. That they were alive to the advantage of the adoption of a uniform bimetallic standard, as a step toward the adoption of a common international monetary standard.

12. That no measure has been suggested that claims to be anything like so complete and thorough a remedy as the adoption of the system known as "bimetallism."

Notwithstanding these important admissions in favor of bimetallism, these six gentlemen were not prepared to join their colleagues in recommending that England should negotiate with other nations a treaty embodying a bimetallic arrangement.† Their principal reason for refusing to adopt the admitted remedy for the evils which they acknowledged to be consequent on the demonetization of silver in Europe, is a vague, unreasoning and undefined dread of some imaginary evil, a fear that the change proposed is a "leap in the dark," that the public mind is not prepared for it, that the "novelty of the proposal would excite apprehension," that the matter needs "much more discussion and consideration in the financial world and by practical men than it has yet received." But to return to a system which has been proved by the experience of three-quarters of a century to have been eminently successful, can scarcely be classed under the category of a "leap in the dark;" moreover, further discussion can scarcely have been needed after nearly two years patient investigation which has thrown a flood of light on the subject, and has practically converted the monometallists of the commission into timid bimetallists.

against commodities at the fixed ratio, the market value of silver, as measured by gold, *would* conform to that ratio and not vary to any material extent."

† One of these six members—Mr. Leonard Courtney, M. P., has subsequently declared in public that he now favors the adoption of an international agreement, on a bimetallic basis.

Important as were the admissions of the members of the Royal Commission, the government has taken no action whatever in regard to their report. In 1890 the prospect of legislaation paving the way to free coinage of silver in the United States, caused an appreciation of silver to an extent of twenty-five per cent, but as soon as all hope from such legislation was disappointed, the price of silver again fell back to its former level. Sir David Barbour, the Finance Member for India, has stated that this appreciation of silver was attended in India by a trade depression which, doubtless, if the appreciation had continued, would have extended throughout the country and influenced prices and wages; but an appreciation of the standard is not immediately followed by a fall of retail prices, still less by a fall of wages which follows more slowly. The accumulation of silver in the treasury was unprecedented; and the rate of discount lower than had ever been known; and as Sir David Barbour has remarked, "the appreciation of the standard is not necessarily attended by a positive and manifest scarcity of the metal, leading to a want of current coin to carry on the ordinary transactions of daily life. It does not affect retail transactions sooner than wholesale transactions; it does not lead to a scarcity of metal in the bank, and is not accompanied by a high rate of discount. On all these points the conclusions to be drawn from recent events, are in full accordance with the principles of what I will call orthodox political economy, and are fatal to the contentions of those who lately argued that there could have been no appreciation of gold, in reliance upon certain phenomena which, if they had been able to interpret them correctly, would have proved the exact contrary of that for which they were contending." In 1892, the Government of India stated that they had always been desirous of aiding the settlement of the silver question by an international agreement, and they implored the Home Government to withdraw from its attitude of hostility to international bimetallism, and so remove the only obstacle that stood in the

way of its accomplishment. With reference to the proposed Monetary Conference at Brussels, they wrote: "We fear that refusal on the part of Great Britain to adopt the system of double legal-tender may be fatal to an international agreement for the free coinage of both gold and silver. . . . We deeply regret this state of affairs, both because we believe that no other country is so deeply interested in, or would benefit so greatly by, a uniform standard of value throughout the civilized world, as Great Britain, with her vast system of trade and the great extent of her finance; and because the final rejection of an international agreement for the free coinage, both of gold and silver, will leave this country face to face with a problem of the greatest difficulty. . . . It would, we submit, be wholly unreasonable if Her Majesty's government were to prevent the Government of India from making an attempt to introduce a gold standard into this country, on the ground of the actual or possible appreciation of gold, and were at the same time to refuse to support the proposal for a general system of double legal-tender on the ground that there had been no appreciation of gold in the past, and that there was no likelihood of any such appreciation in the future. If Her Majesty's government is not prepared to accept the proposal which we have advocated for more than ten years as the best remedy for our difficulties, we consider that they ought not now to refuse to let us adopt the only other remedy open to us, namely, the adoption of the same monetary standard as that in the country with which we have our most intimate financial and commercial relations; that standard being, as we understand, considered by Her Majesty's government to have worked so satisfactorily in England that they are not prepared to encourage any hope of a departure from it being approved by them."

In November, 1892, at the invitation of the Government of the United States, a monetary conference was held at Brussels to consider what measures, if any, could be taken to increase the use of silver in currency. At an early stage of

the proceedings, M. Alfred Rothschild, the leading delegate for Great Britain, observed: "Gentlemen, I need hardly remind you that the stock of silver in the world is estimated at some thousands of millions, and if this conference were to break up without arranging any definite result, there would be a depreciation in the value of that commodity which it would be frightful to contemplate, *and out of which a monetary panic would ensue, the far-spreading effects of which it would be impossible to foretell.*" This opinion quite coincides with the warning given by Mr. Goschen at Leeds, when he said on the occasion of the Baring failure: "You risked the supremacy of English credit, the transfer of the business of this country to other European countries. I cannot exaggerate the immediate danger to which this country was exposed . . . . You have escaped from a catastrophe which would have affected every town, every industry,—to use a common phrase, you have escaped by the skin of your teeth." It also coincides with the opinion which that gentleman expressed at the Paris Conference of 1878, that the campaign against silver would be very disastrous even for the countries whose legal currency consists of gold only, and that the attempt which would be made from all sides to get rid of silver "might produce a crisis more disastrous than any of those which the commercial world remembers."

At the Brussels Conference there appeared to be a very general opinion among the majority of the delegates, that all propositions for the purpose of artificially raising the price of silver by an extended use of that metal, were mere palliatives and of little real use; that the only possible remedy that could relieve the situation was a return to the monetary law that existed before 1873, and that Great Britain from its antagonistic attitude was the principal, if not the only, obstacle to the application of this remedy. All the palliatives that were brought forward were of the character that has been designated "*thinly disguised bimetallism*" or propositions intended to pave the way to a return to the double

standard. With regard to the position of India, I may perhaps be allowed to quote the following extract from one of the speeches I made as a delegate representing the Government of India at that conference:

"The position of India is undoubtedly different from that of any other nation; she is to a great extent independent of foreign nations, inasmuch as she is not under the necessity of adjusting international trade balances by the actual transmission of specie, because she performs that operation by the transmission of merchandise. The accumulation of silver in the Indian banks has of late years been unprecedently large, so that no immediate inconvenience would arise to herself from closing her mints to silver. It is only as late as 1835 that gold ceased to be a legal tender in India, and although at that time the amount of gold in circulation was very much less than that of silver, still the remains of that currency must amount to a very large volume. Her net imports of gold since 1835 have amounted to about £150,000,000 sterling. India, therefore, would have no greater difficulty than Austria, even if as great, in establishing a gold currency in some form, whether it be the "*etalon boiteux*" or one with the existing silver coin circulating as tokens as at present in England. It is unnecessary for me to enter into the details of the numerous and constantly recurring evils to which India is subjected in consequence of the relative instability of the currency, but I may say that these evils are not merely financial, but political, seriously menacing her most vital interests. India has already too long postponed action necessary to protect her interests, hoping that some reasonable solution of the question might be arrived at, and a large and influential portion of our Indian community is now strongly urging the Government of India to take measures for adopting the gold standard. So long as there is any hope of arriving at a reasonable solution of this difficulty, I am convinced that my government would shrink from the necessity of changing its standard; but of late the

hope of such a solution has appeared more and more remote. Should this conference break up without arriving at any definite result, then India must take immediate measures for her protection. Whether those steps will end in the stoppage of the silver coinage and the adoption of gold coinage in some form or other, I am unable to say.

"I cannot disguise from myself that *such a step is fraught with immense difficulties*, the result of which it is impossible to foresee. The general feeling of India is that it would be disastrous to the gold-using countries of Europe rather than to India, but India must consult her own interests. The magnitude of the question may be conceived when it is known that the population of India exceeds 280,000,000 souls. It must be understood that in these remarks I have merely expressed my own personal opinion, and that I cannot in any way commit my government to my views. I must express my opinion that the *only satisfactory solution of the difficulty is to be found in an international agreement on a bimetallic basis*, in which my government would join the Latin Union and the United States. Such a combination would be amply strong to preserve any ratio that might be fixed, but as such a combination appears to be impracticable in the present temper of the delegates, I am prepared to support any proposal tending to that end as a step in the right direction. If any proposal should hold out a reasonable hope of maintaining relative stability, it is probable that my government will consent to take no steps toward closing the mints to silver, but the Government of India must reserve to itself complete freedom of action in regulating its system of currency."

The Brussels Conference adjourned on the seventeenth of December, 1892, until the thirtieth of May, 1893, in order to allow the delegates to confer with their respective governments, but subsequently the Government of the United States proposed a further adjournment.

Meanwhile the Government of India, fearing the crisis that might be expected in the event of a failure of the

Brussels Conference to arrive at a satisfactory result, urged that they should be in a position to close their mints and make arrangements for the establishment of a gold standard in India.

The total active rupee circulation was estimated at 1,150,000,000 of rupees, so that in order to establish a legal tender money composed entirely of gold, it would be necessary to withdraw the silver coin and replace it by about £75,000,000, an impossible operation, apart from other considerations. It would be necessary, therefore, to adopt a circulation of overvalued silver tokens, made legal tender to any amount, but in order that the gold standard may be effective the number of these tokens must be limited. Little gold in that case would be in active circulation; those gold coins which might be in circulation would quickly find their way into the hands of bankers, bullion brokers and government treasuries. The measures necessary for this step would be:

1. The closure of mints to free coinage of silver, the government retaining the right of purchasing and admitting it.

2. The mints to be opened to the free coinage of gold. If gold were not brought to the mint in sufficient quantity, or the value of the rupee should fall below the fixed ratio, it would be necessary to reduce the rupee currency until its value could be restored. Indian rupees would certainly be returned to India from abroad when their value in India became greater than their value as bullion. No serious difficulty from an over-supply of gold need be feared.

Sir David Barbour in his memorandum observed, "I have no hesitation in saying that an *international agreement for the free coinage of both silver and gold, and for the making them full legal tender at a fixed ratio* would be far better for India, and for all other countries, than the establishment of the single gold standard even if the latter course be possible. The general adoption of a system of double legal tender would be a perfectly safe measure and would be a final settlement of the question. The attempt to establish a general

gold standard is not free from risk. History affords instances of the establishment of a gold standard in one or more countries but sooner or later the standard was changed.

* * * * *

"With regard to the question of the expediency of attempting to introduce a gold standard in India I do not go further than saying, that if a general agreement for the free coinage of both gold and silver cannot be obtained, and if the United States does not adopt the free coinage of silver, I think an attempt should be made to establish a gold standard in this country."

Meanwhile, the committee appointed to inquire into Indian currency under the Presidency of Lord Herschell, had been pursuing their investigations and on the thirty-first of May, 1893, delivered their report, to the effect that "while conscious of the gravity of the suggestion, we cannot, in view of the serious evils with which the Government of India may at any time be confronted, if matters be left as they are, advise your lordship to overrule the proposal for closing the mints and the adoption of a gold standard, which that government with their responsibility and deep interest in the success of the measures suggested have submitted to you.

* * * * *

"The closing of the mints against the free coinage of silver should be accompanied by the announcement that though closed to the public, they will be used by the government for the coinage of rupees in exchange for gold at a ratio to be fixed, say 1*s*. 4*d*. per rupee and that at the government treasuries gold will be received in satisfaction of public dues at the same ratio."

Mr. Leonard Courtney, a member of the committee, in a note of dissent said: "For reasons, upon which I do not now enter, I have come to the conclusion that the divergence between gold and silver has been, to a large extent due to an appreciation of gold; and this opinion necessarily affects my judgment of the policy of the Indian Government, which is

to adopt a gold standard instead of one of silver. This is to accept as unalterable, if not to intensify, the aggravated burden thrown on India. It may be that no other course is possible, but the Home Government should ask itself whether it is through its own action that no other course is possible, and whether the Indian Government might not propose a very different course if there was any chance of its being favorably considered by the Supreme Government. I am myself drawn to the conclusion that *the Home Government is the greatest, perhaps the only substantial, obstacle to the establishment of international agreement for the use of silver as money*, which, without attempting to restore the position of twenty years since, would relieve India from the anxiety of a further depreciation of its revenue in relation to its liabilities."

It was not with a light heart that India adopted this policy. On the twenty-fifth of June, 1893, a bill was passed in India in accordance with the recommendations of the committee, and the Viceroy in introducing the bill said: "We have borne long enough with a state of things which is becoming more intolerable with every year that passes, and which in all human probability would have become more intolerable every year. We feel that, holding these views, we should be culpable if we did not attempt to place the finances of India on a more stable basis. We admit the immense difficulty of the problem, and the uncertainties by which it is surrounded, and we offer this solution not as one which is ideally perfect, but as the best which can be devised.

* * * * * * *

"We are, however, too well aware of the intricacy of the problem, and the risks attending such an experiment as that we are about to try, to take this momentous step with a light heart."

The Government of India can scarcely be blamed even if their selection has been wrong. It has been narrowed down

to a choice of two evils of great magnitude—the *policy of uncertain drift* or the *policy of despair*.

The bolt has fallen, and he would be a rash man who would attempt to predict the results of this measure. The natives of India in all their notions and actions are altogether unlike Europeans; their thoughts are not our thoughts, neither are their ways our ways; yet the "buniahs" (the money lending and banking population) have a very keen apprehension of any monetary changes, and will not be slow to turn them to their own advantage and to the disadvantage of the masses in India.

The currency of India is now in a condition which is a complete violation of all sound principles of currency. It consists of a huge inconvertible token coinage; practically a gold standard without a gold currency or even a gold reserve. The rupee circulates at a value much above its intrinsic value as bullion. It is no longer international money. Hitherto it could be exported without loss, but now it cannot be used out of the country without a loss of about twelve per cent, a loss which will increase in all probability to an indefinite extent. Nor is there in India—as in France, Austria or the United States—any large reserve of the standard metal to meet a possible emergency.

It is possible that there may not be any greater difficulty in maintaining the token value of the rupee than in maintaining the value of currency notes, so long as the balance of trade with India is unchanged and the credit of the government remains good, but serious complications must be expected should India experience any great crisis or catastrophe, whether political or commercial; and in any case the token value can only be maintained by the sacrifice of a very serious contraction of the currency.

It appears probable that a large amount of gold will not be required for retail money circulation under the new system, for the silver tokens will probably circulate very much as before. There is a large amount of gold now

hoarded in India, but Sir David Barbour is of opinion that this will not be brought to the mints in large quantities under the existing conditions. I would even go further, in the belief that, on the contrary, there will be a large demand for imported gold to replace the silver hoards which have no longer any fixed value as measured by the new standard of currency, and are consequently not available as a safe medium for hoarding; so that, although it is improbable that the change in the Indian currency will *directly* increase the already too heavy demands for gold, it will do so *indirectly* through the medium of the hoards.

It remains to be seen how the action of the Government of India will influence the United States in taking measures which may intensify that scramble for gold, which has already told so disastrously on the industrial interests of England.

The change in the value of the rupee inflicts a cruel injury on an enormous class in India, namely, on those who have hoarded silver ornaments (a practice almost universal). Hitherto the mints have always afforded a fixed market in which nearly the full value of these ornaments could be at once realized without any shadow of doubt; and in times of scarcity or depression, enormous quantities of silver ornaments have been brought to the mints or deposited with the buniahs by those who had to pay their taxes, or satisfy other obligations in rupees; but now this market for such hoards no longer exists; the owners of such ornaments will not only find that the value of their hoards when measured in rupees is already about twelve per cent less than before, but that there is now no certainty about their value, which is fluctuating and likely to fall still lower, thus giving rise to an element of uncertainty, of which the buniahs will naturally take advantage, to the prejudice of the unfortunate holders of the hoards.

It has been argued that the amount of uncoined silver in India could not be great, because since 1870 the net amount of silver imported into India has been nearly equal to the

amount coined. This, however, is a false assumption. The mint was practically the fixed market for all imported silver; and nearly all ornaments used for hoarding were *made directly from coined rupees* which until now could be converted into ornament without loss of value. The native jewelers did not as a rule keep a stock of silver, but it was almost the universal practice with those natives who required silver for hoarding to give the jeweler a number of rupees, plus a small fraction for workmanship, and to receive back, in the shape of ornament, the same silver, minus the fraction. In many cases, especially in heavy bangles, which are the most common form of ornament, the cost of workmanship was insignificant, so that nearly the full value in rupees could be obtained for the silver when taken back to the mint in times of famine or scarcity. It has, moreover, been suggested that the additional value given to the coined hoards will balance the loss to the uncoined hoards, but this will not lessen the injustice to those who may happen to possess hoards of uncoined metal. Moreover, a fallacy underlies this argument, for the value of the rupee is not increased in those cases in which taxes have to be paid or obligations contracted in rupees have to be satisfied. In such cases, therefore, the owner of coined silver does not gain, whilst the owner of uncoined silver loses heavily.

Possibly there may not be any very large, or at all events, a permanent, depreciation of silver throughout the world, or in other words, a rise in silver prices; the United States can without difficulty absorb a very large amount of silver as token currency; the active rupee circulation in India, estimated at 130,000,000 rupees will still be required for token circulation though useless as international money, and any surplus hoards of uncoined silver will to a great extent be absorbed by the silver using countries. If the United States should take any precipitate action with regard to their silver policy, this might be attended by a sudden deluge in the silver market, but it is doubtful whether such a change would be permanent. That

which is most to be feared, as the *indirect*, rather than the *direct* effect of India's monetary policy, is a heavy appreciation of gold. As I have already said, the general feeling is that this policy will be disastrous to the gold using countries of Europe rather than to India. The trade, manufactures and commerce of Great Britain are so largely carried on by credit, that any appreciation of the standard must naturally inflict far greater injury on her than on any other nation. India also must suffer, but in a less degree; for in linking her currency to the gold standard she takes upon her shoulders to a certain extent, those evils from which the trade and manufactures of Great Britain in common with those of other gold countries have already suffered, although at the same time, the government may be relieved from many of the grave evils which have hitherto oppressed her.

Nearly one-fourth of the land revenue is permanently settled, and of the remainder the greater part is fixed on assessments for thirty years, most of which are of recent date. There can therefore be no alteration in the *number* of rupees to be paid, however great the appreciation of the rupee may happen to be. In whatever proportion, therefore, the rupee may in future appreciate, in that proportion will the Indian agriculturist have to pay *indirectly* additional taxation; *not, indeed, in an additional number of actual rupees, but in so much additional produce as may be necessary to earn the same number of rupees as before.* The new policy has already necessitated an increase of produce amounting to about twelve per cent, for to this extent the rupee has appreciated; and it is impossible to predict the amount to which it may yet rise in future; but it is evident that, as the scramble for gold among the nations increases, so must the rupee now appreciate.

There is another serious difficulty looming in the future. Sir David Barbour has stated that should it be found otherwise impracticable to retain the rupee on a par with gold at 1*s*. 4*d*. a contraction of the rupee currency will be necessary, which, "if carried far enough, must ultimately restore the

value of the coin." Now anyone who has studied the subject of currency must be aware that periods of contraction of currency always have been, and always must be, periods of depression of trade, distress, bankruptcy, and ruin. Moreover, India, having taken on her shoulders the evils which formerly handicapped her gold-using competitors, will be no longer on equal terms with her silver-using competitors ; and her trade with silver-using countries will now be exposed to all the difficulties and drawbacks of a fluctuating exchange.

It is difficult to estimate with precision the alleged dangers likely to occur from the circulation of a serious amount of spurious, but full weight, coinage which might prove to be a very profitable trade. The report of the Indian Currency Committee assumes that to carry out operations on an extended scale expensive and specially constructed machinery will be requisite. It was therefore doubted whether the danger of India being flooded with "a large amount of spurious coin would really be a grave one." On the other hand, the natives are extremely skillful in the manufacture of counterfeit coin, and even a small margin of profit in spurious coinage would be large in their eyes. Sir Charles Trevelyan, in 1864, stated that real gold mohurs, nearly of standard value, were habitually made by forgers chiefly to secure the premium at which they sold. One of these establishments at Jagadree in the Punjaub was on the scale of a mint, and the gold coin had an extensive sale in the protected and hill States.

It should be also remembered that there are no fewer than sixty mints belonging to native States within and adjoining our territory which are either now at work, or would be set in active operation, if sufficient inducement were offered. Moreover, it does not appear that the import of füll weight coin (manufactured in foreign countries) could be prevented unless it could be proved that such coins were spurious, a matter very difficult of proof.

There has been an extraordinary inconsistency in the sanction of such a currency. Those who, when the double

standard was under consideration, had previously contended that the proposal to impart an artificial value to money was an economic impossibility, opposed to the laws of supply and demand, have now sanctioned a proposal for artificially raising the value of silver coin in the worst and most mischievous form ; and they have quoted, as precedents, the results of the "limping" system in different countries to prove that the currency of over-valued silver and inconvertible paper has been able,—by means of legislative action and the restriction of the coinage,—to maintain a fairly steady parity of exchange with gold-using countries.* They appear to have been blind to the fact that, whilst this is an artificial raising of the value of money by legislation, at the cost of appreciating the standard, and contracting the supply of currency (two conditions fatal to the prosperity of any country) ; the adoption of the double standard which they have condemned is not in reality an artificial raising of price, but simply a maintenance of equilibrium by means of the natural demand set up for each metal (as money), working through the ordinary laws of supply and demand†; a currency based on the market price of bullion, and one that admits free play to a healthy expansion.

The double standard is in perfect accord with sound economic laws; but the artificial raising of the value of the rupee is opposed to them, and, being a violation of all monetary laws, must, sooner or later, end in disaster. It is that forced elevation of the value of money which Bentham, in his "Principles of the Civil Code," denounced as a "fraudulent bankruptcy" and a "foolish fraud."

GUILFORD L. MOLESWORTH.

Bexley, Kent.

* How far this parity can be maintained in times of financial crises or political difficulties is quite another question.

† See foot note to page 14 on the manner in which *demand* fixes the relative value under the double standard.